

Supplemental Operating Budget

The Problem

Since the 2005 session ended, a booming economy has lifted projected reserves from under \$200 million to \$1.45 billion, based on the latest revenue forecast. Despite being a supplemental budget year, temptation will be great to spend these funds.

The Solution

The supplemental budget is not meant to be a second bite at the apple. We must resist the desire for new, ongoing spending programs and instead budget with an eye to the future, remembering our first responsibility is to the taxpayer.

Senate Republicans believe the supplemental budget should only fund:

1. Unanticipated, unmanageable changes in entitlement caseloads;
2. Corrections to serious technical errors in the original budget;
3. Emergencies; and/or
4. Opportunities to reduce state government costs.

Background

1. What are likely to be the major funding issues in 2006?

Several costs have emerged as issues for supplemental budget funding in the 2006 session, including.

- Addressing the "Skipped" Unfunded Plan 1 Pension Liabilities – The Legislature skipped \$325 million general fund state (\$893 million total funds) in actuarially recommended pension payments last session, via ESHB 1044.

The two primary "savings" employed were:

Skipping unfunded liability payments to the teachers' (TRS) and state & local employees' (PERS) plan 1 retirement systems. *\$173 M general fund "savings"*

Delaying recognition of the costs of future gain-sharing benefits. *\$147 M general fund "savings"*

- K-12 COLA & Caseload – Inflation is higher than originally budgeted, meaning teachers under I-732 will receive a 2.7 percent Cost of Living Adjustment in the 2nd year of the biennium rather than the budgeted 1.7 percent COLA. Caseloads are higher as well. Total estimated combined cost: \$75 million general fund state (GFS).

- Correcting Faulty Budget Assumptions – The 2005-07 budget contained several questionable savings and revenue assumptions that have not borne out, including:
 - ✓ General Assistance Unemployable – The budget presumed savings from greater integration in GAU. Savings have not materialized, and the program’s caseload has continued its rapid growth. \$25 million GFS.
 - ✓ Tri-Care – The budget assumed \$17 million in savings from the creation of a supplemental health insurance plan that would have provided incentives for eligible employees to choose federal Tri-Care coverage, rather than state-funded coverage. The plan was not approved by the Insurance Commissioner.
 - ✓ Medical Assistance Federal Funding – Roughly \$30 million in federal funding was assumed that will not materialize.
 - ✓ Community College Appropriation Error – Budget writers made a \$10 million technical error in the community colleges’ appropriation.
- Gain-Sharing -- The 05-07 budget “delayed” a decision on the funding of gain-sharing, a process where the state shares “extraordinary” market returns with employees in the form of enhanced pension benefits. Following a “study” of the issue during the interim, a decision will have to be made about the future of this benefit, which can be funded, repealed, or replaced. Funding will cost \$147 million GFS in 05-07 and more than \$2 billion over the next 25 years.
- TANF Funding – Funding for WorkFirst, Washington’s welfare-to-work program, is about \$85 million short of what’s needed to continue existing policies. Past practice has been for the governor to make cuts in the program to live within the legislatively approved funding “box,” rather than provide additional funds. Democrats are likely to want to re-visit this policy and provide more money rather than sustain a 5 percent cut.

On November 10, 2005, the governor said she is taking several steps to strengthen Work-First, including a renewed commitment to provide subsidized childcare and other employment supports. However, she said she agrees with the WorkFirst Reexamination Workgroup’s recommendation that parents be denied cash grants if they refuse the considerable support the program offers to place them into jobs.

- Other Caseloads – It is highly possible that entitlement caseloads and per capita costs in corrections, medical assistance, long-term care, and children’s health care may see spikes by the February 2006 caseload forecast.

2. How might things play out in 2006?

The following is a quote from Sen. Prentice on her 2006 supplemental budget goals. This quote offers insights into how things might play out in the 2006 session.

Sen. Prentice Quote -- Ways & Means Hearing, 9/19/05

“The fact that the current revenue forecast is up \$492 million and the current estimate of the reserves is \$1.1 billion is good news for all of us. But we still are going to be facing difficulties when we start building the 2007-09 budget. It isn't too early to start now planning for the next budget.

We all know we've heard caseloads are rising and we're going to be facing hundreds of millions of dollars of spending obligations that have to be addressed before we even begin thinking about anything new. I'm beginning to think that is a refrain that we have at the beginning of every session. But when we come back to town in January we'll be building a supplemental budget. We have to do it with an eye on the future. I know that's not what everybody in this room necessarily wants to hear. I don't want to ruin everybody's good mood. It's been pleasant up 'til now. But it's the job of the Ways and Means chair to deal with reality and behave responsibly.

Some of our budget principles, of course, are to maintain an adequate reserve. I would love for us to try for \$500 million. We want only to spend more money for caseload changes, emergencies, and technical errors in the underlying budget. We need to save money by finding smarter, more efficient ways to provide state services. Sometimes I think we're still stuck in the pencil and paper age when there's technology available to us. We should only adopt new policies that make future budgets easier to build, not harder. And we do have to, number one, address the state's long-term pension obligations. We didn't complete the job and we're going to have to keep at it, I think, for some time to come.”

Source: TVW.com, Webcast Archives (9/19/05 W&M Hearing: 57:20 through 59:03)